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SUBJECT: Austrian Airlines Teetering, GoA Extends  
Bridge Loan

REF: (A) VIENNA 1672; (B) VIENNA 1606 and previous

¶1. Austrian Airlines (AUA) faces a worsened cash crunch and will receive state help even before its pending sale to Lufthansa. AUA now faces charges of mismanagement and withholding material information -- on top of its disputed privatization tender.

¶2. On November 28, news broke that AUA's 2008 operating loss will be as high as EUR 475 million, rather than EUR 100-125 million as projected so far (original projections were in the range of 70-90 million). In addition, AUA will take special charges of up to EUR 200 million for aircraft depreciation, EUR 90 million for deferred taxes, and EUR 60 million for investment losses. AUA is now on the defensive for having withheld material information from shareholders and the public (though not apparently from Lufthansa).

¶3. Negotiations on AUA's sale to Lufthansa, on track to be finalized this week, reportedly will not be affected by the news because Lufthansa was apparently informed about the losses. Since the newly disclosed losses would threaten AUA's solvency (its cash holdings are unknown, but its share capital is only EUR 260 million), GOA holding company OIAG will provide an emergency loan of EUR 200 million to ensure AUA's survival while approval is pending from the EU Commission for a EUR 500 million GoA subsidy in connection with privatization. The bridge loan has a maturity of six months and reportedly will not be added to the GoA subsidy. According to media reports, Air France-KLM has asked the European Commission to block the privatization since the GOA did not announce its subsidy until after selecting Lufthansa.

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